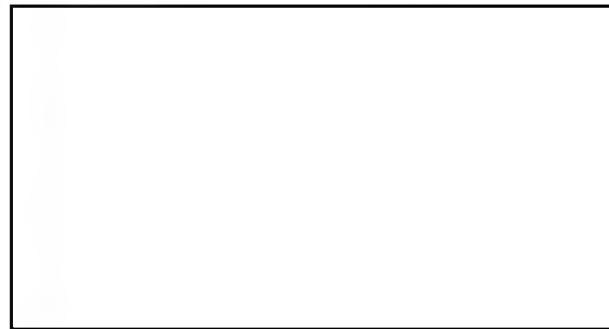


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1 / SAUDI ARABIA: King Faysal reportedly will announce [redacted] that Saudi Arabia will reduce the production of oil "destined for the United States" by 100,000 barrels per day (bpd) for six months. Faysal's decision was reported to be in response to the US veto on 26 July of a Security Council resolution on the Middle East.

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3 Current oil production in Saudi Arabia is about 8 million bpd, but ARAMCO--owned by four US companies and the Saudi Government--had hoped to increase production to about 9 million bpd by the end of 1973. It is not clear whether Faysal intends to cut back total oil exports by 100,000 bpd or to seek to decrease Saudi oil actually coming into the US--currently only about 300,000 bpd out of total US oil imports of 6 million bpd. If the Saudi King ordered a production cutback [redacted] this might be followed by similar steps on the part of other Arab oil-producing countries.

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[redacted] Foreign visitors who have met recently with Faysal have acknowledged that he is increasingly critical of US policy in the Middle East, in the wake of the Security Council veto. The Saudis have been under growing pressure from other Arabs to use the country's oil and rapidly mounting cash reserves as political levers to get the US to modify its stand on Arab-Israeli questions. This decision constitutes the King's first overt action linking oil policy and Middle Eastern politics. Although his move appears to be largely symbolic, it could portend harsher Saudi policies.

[redacted]

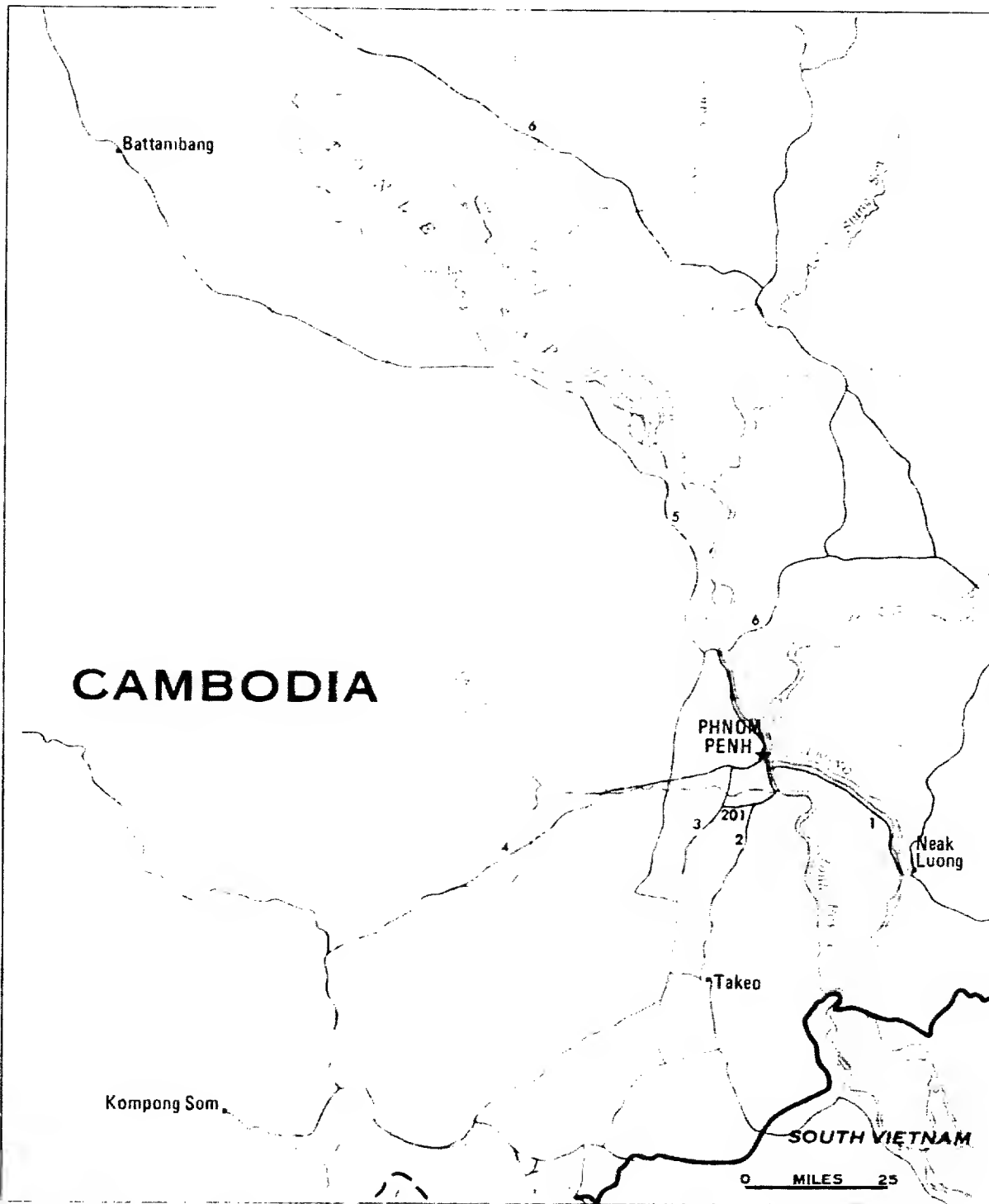
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CAMBODIA: Military activity in the Phnom Penh area is at its lowest level since April.

Government commanders are taking advantage of the lull in enemy attacks to expand their defense perimeter. South of the city, troops have cautiously advanced down Routes 2 and 3 and have regained all but a small segment of Route 201 against no opposition. Other government units are patrolling east and west of Route 1 between the capital and the naval installation at Neak Luong. Cambodian Army units are continuing offensive operations north of the city.

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LIBYA: The government's 51-percent nationalization of Occidental Petroleum probably will be followed by moves against other companies.

1 2 On 11 August Tripoli nationalized a majority share of Occidental's Libyan assets and threatened to take the remaining 49 percent if the company resisted the action. Occidental acquiesced and will receive compensation only on the basis of net book value--a low valuation method. The company also agreed to market Libya's share of the production and will pay a high price for the government-owned oil--more than a 50-percent increase over that paid by Occidental previously. Occidental produces about 15 percent of Libya's oil, exporting most of it to Western Europe.

1, 2, 3 The Oasis Group of companies, which accounts for almost 40 percent of Libyan production, is scheduled to meet next with Libyan officials and probably will face demands to accept the same settlement as Occidental. Three of the Oasis partners--Continental, Marathon, and Amerada-Hess--have relatively little oil production outside of Libya and probably will acquiesce. Shell, the other Oasis partner, has most of its production in the Persian Gulf countries and Nigeria, and probably will resist Tripoli's demands in an attempt to deter other oil-producing countries from demanding similar terms. It is almost certain, however, that acceptance of Tripoli's terms by Occidental and three of the Oasis partners will spur the Persian Gulf countries to seek improved terms from the oil companies operating there.

1 ISRAEL: Tel Aviv is attempting to head off possible wider ranging legal complications arising from its interception of a Lebanese civilian airliner on Friday, but it appears basically unfazed by the universal condemnation the action has aroused. The Arab states have hinted indirectly at retaliation.

2 Israeli ambassadors have been instructed to take the line that the operation was necessary in the face of the general international failure to act against terrorism. Defense Minister Dayan's public statement similarly justified the action, describing George Habbash--the fedayeen leader who was originally scheduled to be on the airliner and was the target of the Israeli operation--as a mass murderer.

1 Dayan's prediction that Israel will continue such operations against the fedayeen is an indication that Tel Aviv is, as in previous incidents, undeterred by the international outcry. The Israelis may be somewhat apprehensive, however, that this incident will have longer range implications that necessitate their unusual efforts to explain themselves.

3 The first battle will be at the UN today, where the Security Council will meet to consider the complaints of Lebanon and of Iraq, which had chartered the Lebanese airliner. Although the Lebanese have not yet drafted a resolution, a Lebanese Government statement has called on the "international community" 4 to impose sanctions on Israel. Iraq can be expected to take a tough line at the UN if Lebanon does not. A complaint has also been lodged with the International Civil Aviation Organization (ICAO), which is 1,2,3 scheduled to meet in Rome later this month to consider legal sanctions against states which encourage or condone hijacking.

1 In the Arab world, the Israeli action is being met with predictable indignation. Iraq issued a statement reserving "its full right to take deterrent measures against this aggression," and an Egyptian

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- 1 spokesman has noted that Israel's act opens the door for all other Middle East governments to engage in air piracy. These comments may presage official
- 2 Arab government efforts to retaliate in kind for the Israeli action.

- 1 The fedayeen are probably somewhat disconcerted at the accuracy of Israeli intelligence in pinpointing Habbash's travel plans and at the implications for their freedom of movement. Nevertheless, they can make propaganda capital out of Israel's failure to capture Habbash, and they are not likely to be deterred from efforts at retaliation.

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FOR THE RECORD*

Pakistan-PRC: One hundred Chinese T-59 tanks have recently arrived in Pakistan. This represents the final shipment of tanks under a pledge made by Peking in 1972 to equip two new infantry divisions. Other equipment yet to be delivered includes small arms and artillery. [REDACTED]

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USSR-Cuba: A Soviet Kresta class cruiser and a Kanin class destroyer are operating in the Gulf of Mexico after visiting Havana from 4 to 9 August. The E-II class cruise missile submarine that accompanied them to Havana was last detected at sea on 10 August northwest of Havana. [REDACTED]

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Pakistan: The National Assembly has elected President Bhutto to be prime minister. Under the new constitution which goes into effect this week, executive power is vested in the prime minister. Bhutto will relinquish the presidency, which will be a ceremonial office. [REDACTED]

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Haiti: A major shakeup of the Haitian armed forces and extensive diplomatic changes were announced by the government on 11 August, two days after a cabinet reshuffle. Rumors of the changes had been circulating for some weeks. These moves may be part of President Duvalier's efforts to remove critics of his regime, and additional changes are likely. [REDACTED]

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**These items were prepared by CIA without consultation with the Departments of State and Defense.*

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